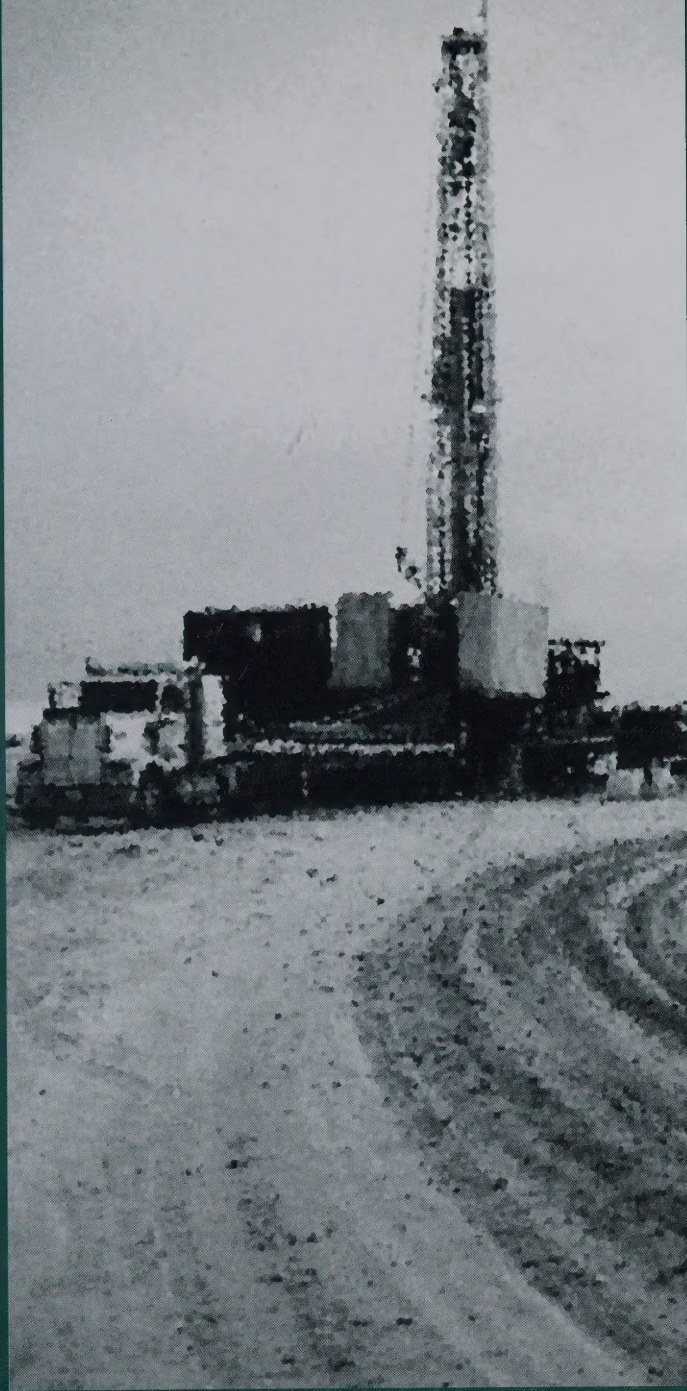


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1994

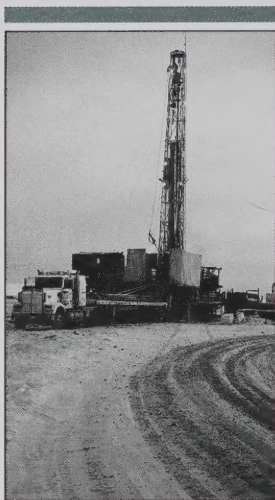
ANNUAL

REPORT



SPIRE
ENERGY LTD.

CORPORATE PROFILE



Photograph of Elgin Rig #240 drilling Spire's first well at Oyen, Alberta. The well at 02/12-09-29-5W 4M was drilled to a depth of 961 feet, cased for Gem A gas and rig released on January 4, 1995. The well was completed and commenced production on January 13, 1995.

ANNUAL MEETING

The Annual General Meeting for shareholders of Spire Energy Ltd. will be held on June 23, 1995, at 10:00 A.M. in the law offices of Burnet, Duckworth and Palmer, Suite 1400, First Canadian Centre, 350 - 7th Avenue S.W., Calgary, Alberta.

Spire Energy Ltd. is a junior oil and gas exploration and production company based in Calgary, Alberta. The Corporation commenced operations in September, 1993, completed its initial public offering in December of the same year, and went public in January, 1994. Spire shares are traded on the Alberta Stock Exchange under the symbol SEY.

Spire is pursuing a growth strategy designed to establish cash flow from oil and gas operations while minimizing the Company's exposure to risk during the critical start-up phase. The Company's immediate objective is to concentrate on acquiring oil and gas assets in Western Canada that can be optimized through low risk development drilling. Over the long term, Spire will be opportunity driven, and look to a combination of acquisitions, development, and exploration to find reserves at the lowest cost possible and achieve the highest rate of return for shareholders.

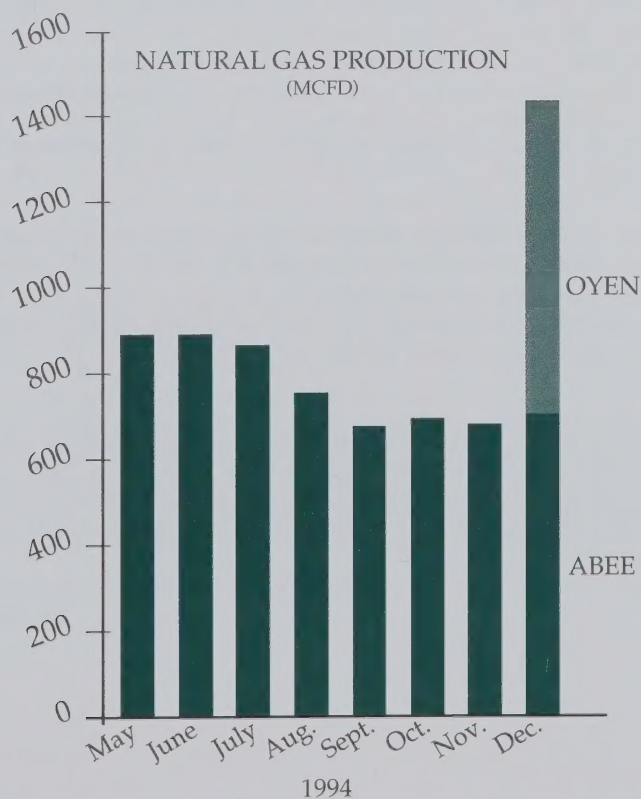
Spire's strength is the ability to identify and extract hidden value from under-exploited assets. The Company maintains a tight geographic focus to take advantage of operating synergies and cultivate the necessary technical expertise to maintain a competitive edge. The Corporation also strives to control the variables that impact cash flow. Securing a high working interest position, operating its production, owning processing capacity and employing prudent marketing strategies are key elements that will allow Spire to emerge as a leader in a competitive industry.

The following standard oil and gas abbreviations have been used throughout this report:

MCF	Thousand Cubic Feet
MMCF	Million Cubic Feet
BCF	Billion Cubic Feet
MCFD	Thousand Cubic Feet Per Day
MMCFD	Million Cubic Feet Per Day

HIGHLIGHTS

FINANCIAL (ROUNDED)	1994	1993
Total Revenue	\$ 220,000	\$ 0
Funds Flow (Loss) From Operations	(6,000)	(37,000)
Funds Flow (Loss) Per Share	0.00	(0.03)
Net Earnings (Loss)	(154,000)	(37,000)
Net Earnings (Loss) Per Share	(0.04)	(0.03)
Capital Expenditures	2,568,000	47,000
Total Assets	\$ 2,669,000	\$ 471,000
Common Shares Outstanding		
Average	4,154,000	1,084,000
At Year End	6,600,000	4,000,000
OPERATING		
Production (before royalties)		
Natural Gas (MMCF)	195	0
Average Daily Production (MCFD)	535	0
RESERVES		
Natural Gas (MMCF) (before royalties)		
Proven	5,025	0
Probable	702	0
LAND		
Undeveloped Land (net acres)	1,296	0



PRESIDENT'S MESSAGE

On behalf of the Board of Directors, I am pleased to present the annual report to shareholders for the year ended December 31, 1994.



Gerry R. Bartman
President & CEO

HIGHLIGHTS

The 1994 year marked an exciting and challenging period for Spire Energy Ltd. In its first full year of operation the Company achieved a number of key objectives. Early in the year the Corporation secured a listing on the Alberta Stock Exchange, and Spire shares were posted for trading January 21, 1994. In July, Spire completed its Major Transaction with the purchase of assets in the Abee area of Alberta, and was no longer constrained by the regulations that apply to Junior Capital Pool Corporations. Shortly thereafter, Spire closed a second major acquisition of assets near Oyen, Alberta and established another core focus area for the Company. At year end, Spire turned to the drill bit to develop the Oyen assets. This drilling resulted in two successful gas wells - nearly doubling the production and increasing the proven reserves from the Oyen area fourfold.

In 1994, Spire progressed from a Junior Capital Pool Corporation to an oil and gas company with significant land holdings in two core areas and natural gas production of 1.4 MMCFD.

ACQUISITIONS

Spire closed two major acquisitions of producing oil and gas assets in 1994. Both properties were purchased from oil and gas companies at arm's length to the Corporation.

On July 29, the Company closed an acquisition of assets near Abee, Alberta for a cash consideration of \$872,000, net of adjustments. This acquisition provided Spire with an average 23% working interest in 16,186 acres of land, a 32% working interest in four producing gas wells and a 26% working interest in the Abee Gas Plant and associated gas gathering system; a facility designed to process up to 10.9 MMCFD of raw gas.

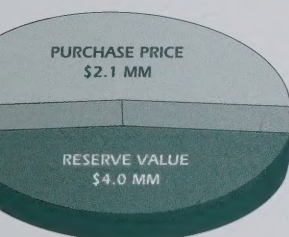
On December 1, Spire completed the purchase of oil and gas assets near Oyen, Alberta, for a cash consideration of \$1,238,000. This acquisition consisted of a 65% working interest in 2,560 acres of land, a 100% working interest in two producing gas wells and a 100% working interest in a gas compression facility capable of handling 4.0 MMCFD of natural gas.

These strategic acquisitions established cash flow from oil and gas operations in two core areas. In each of these areas, Spire has a significant land position, equity ownership in underutilized processing facilities and pipeline infrastructure, and a base from which to expand its operations.

These major acquisitions are summarized in the following table:

MAJOR ACQUISITION SUMMARY - 1994		
Gross (Net)		
PROPERTY	ABEE	OYEN
Land (acres)	16,186 (3,750)	2,560 (1,664)
Producing Wells	4.0 (1.3)	2.0 (2.0)
Processing Capacity (MMCFD)	10.9 (2.9)	4.0 (4.0)
Transportation-Firm (MMCFD)	(2.5)	(0.8)
Marketing	Fixed Price (\$2.14/MCF) ⁽¹⁾	WGML Netback Pricing
Gas Production (MMCFD)	2.2 (0.7)	0.7 (0.7)
Gas Reserves (BCF) ⁽²⁾		
Proven	6.2 (2.0)	3.4 (3.1)
Probable	1.2 (0.4)	1.0 (0.3)
Total	7.4 (2.4)	4.4 (3.4)
NPV (\$M) ⁽²⁾ (discounted at 15%)	\$ 1,215	\$ 2,770
Purchase Price (\$M)	\$ 872	\$ 1,238

MAJOR ACQUISITIONS



(1) One year contract commencing November 1, 1994.

(2) Reserves and estimated net present value of future revenue at December 31, 1994, from independent engineering report prepared by Sproule Associates Limited, dated May 15, 1995. Probable values have been reduced by 50% to account for risk.

FINANCINGS

Spire successfully completed two equity financings in 1994. The first was a private placement closed on October 12, 1994, whereby the Corporation issued 500,000 common shares on a flow-through basis at a price of \$0.41 per share for total proceeds of \$205,000. These funds were used to conduct our drilling operations at Oyen in December.

In a subsequent transaction, the Company filed an exchange offering prospectus dated November 28, 1994 to issue 2,000,000 Units at a price of \$0.40/Unit, each Unit consisting of one common share and one common share purchase warrant. Each two whole warrants entitle the holder to purchase one common share of the Corporation at a price of \$0.50 on or before 4:30 p.m. on December 15, 1995. This offering was fully subscribed and closed on December 23, 1994. Spire realized net proceeds of \$708,000 from this financing which was used to retire indebtedness of the Corporation and fund the purchase of the Oyen assets.

At December 31, 1994, the Corporation had 6,600,000 common shares outstanding.

MARKETING

Gas prices started to decline in mid-1994, and continued to slide through to year end. This deterioration in price was a product of an efficient North American oil and gas industry – an industry that reacted to the elevated gas prices enjoyed in 1992-1994 and increased drilling activity to record levels. This drilling resulted in a gas supply surplus, which when aggravated by an unusually low demand due to the mild winter heating season, resulted in a price collapse.

In 1994, Spire implemented a gas marketing strategy that served to insulate the Company from the low spot market prices experienced in late 1994 and early 1995.

Spire entered into short and long term sales contracts for all of its gas production in 1994 to minimize the impact of fluctuating gas prices on cash flow. Specifically, Spire dedicated gas production from the Abee area to a one year fixed-price contract commencing November 1, 1994. Under this contract, Spire can sell up to 1.2 MMCFD of gas at a fixed price of \$2.14/MCF, yet Spire is not obligated to provide a corporate warranty. In a separate transaction, gas produced from the Oyen lands was contracted on a long term basis to Western Gas Marketing Limited (WGML) under a netback pricing arrangement. Pricing under this contract is indexed primarily to U.S. prices, and WGML has the transportation in place to move gas out of the province to better markets.

OUTLOOK

Spire is well positioned for growth into 1995 and beyond. Our acquisition efforts in 1994 secured premium quality assets at Abee and Oyen that will provide a solid platform on which to build a successful oil and gas company.

We have concentrated our efforts in the Oyen area to date, as the operating costs are lower and we own 100% of the gas processing facilities and infrastructure. These factors translate into a greater impact on cash flow. Spire's drilling results in the first quarter of 1995 have supported this mode of operation, with a third drilling success at Oyen in March. This drilling has delineated further step-out development potential, and prompted Spire to pursue further acquisitions to intensify its position in the area.

Although Oyen has been our primary focus, Spire plans to optimize the Abee assets using the same techniques employed at Oyen. We intend to continue with our acquisition efforts in 1995, and purchase additional shut-in gas that can be tied-in to our plant to utilize the excess capacity. Spire has developed an extensive geological database in this area, and has identified several potential drilling opportunities. The Company acquired seismic data in 1994 and plans to shoot additional data in 1995 to reduce the drilling risks. Pending the review of this data, Spire anticipates drilling at least one well in Abee this year. Although this area is more complicated than our Oyen property from a technical standpoint, it has the advantages of longer reserve life indices and a greater number of producing horizons. Spire has a significant land position in Abee and is determined to develop the area to maximize its potential.

Spire is continually evaluating technical data in both core areas and searching out opportunities on adjacent acreage that could fuel our drilling program. Crown land sale activity in the past couple of years has been extremely bullish, and with cash flow forecasts plummeting with the drop in gas prices, many companies are faced with capital budget constraints. This will present opportunities for companies like Spire to exploit areas where land and seismic money has been spent and corporations are looking to salvage value from their investments. Attractive acquisition opportunities and farm-in deals have already surfaced in early 1995, and this trend is expected to continue for the balance of the year.

Spire will fund its 1995 capital program through a combination of equity and debt financing. Spire will use debt leverage scrupulously, and employ debt to carry out projects that have relatively low risk such as the tie-in of shut-in gas.

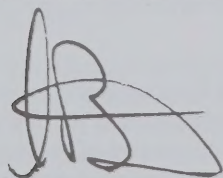
Spire intends to establish a third core area of operations in 1995, and will focus on acquiring an oil producing property. A balance of oil and gas will make Spire less vulnerable to fluctuating commodity prices, and in effect, stabilize Spire's cash flow.

Gas drilling activity in the U.S. has slowed considerably in the past few months in concert with the lower gas prices experienced of late. Historically, this reduced activity has preceded an increase in gas prices as the supply/demand equation comes into balance. The uncertainty lies in predicting the time lag before the next upswing in the price cycle. However, the firming of gas prices in the spring of 1995, atypical for a season when demands are traditionally lower, may imply that prices are rebounding. Nevertheless, Spire plans to continue with prudent marketing practices that will steady the Company's cash flow over the long term.

Our philosophy is to act conservatively in these times where commodity prices are lower and equity markets are difficult to access. Spire will undertake projects that require less capital and carry less risk, yet will allow the Company to move forward toward its targets. This strategy will allow Spire to develop a track record in the industry, and be positioned to capitalize on the equity markets when the cycle returns.

In closing, I would like to extend my appreciation to the Board of Directors for their guidance over the past year, and recognize the knowledge and experience that they bring to the Board. I also thank the shareholders of Spire Energy Ltd. for their steadfast support in a difficult market. I anticipate an exciting 1995 year for Spire and look forward to informing you of our progress in future reports.

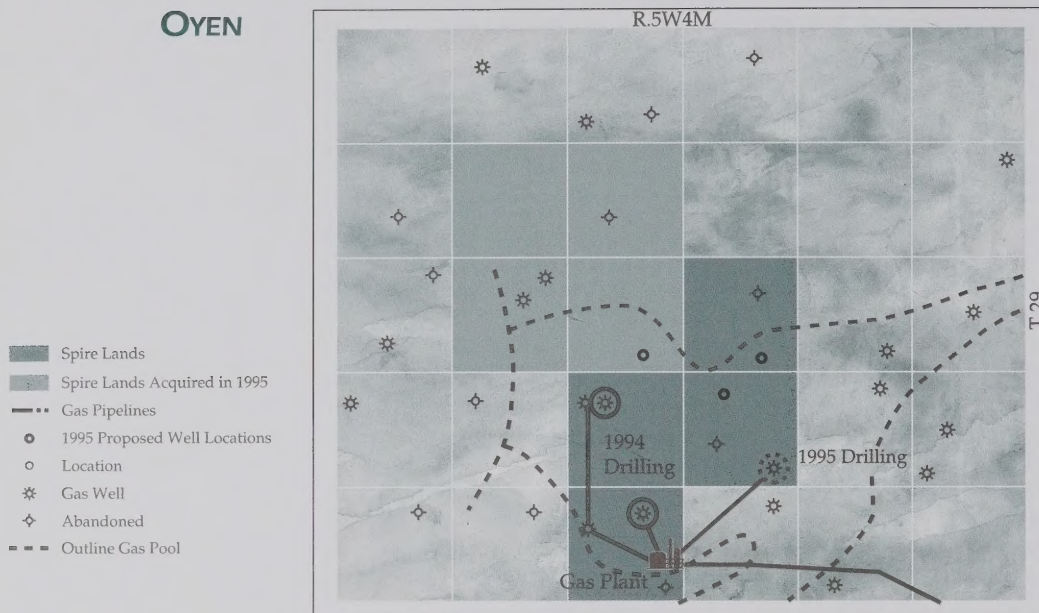
On behalf of the Board of Directors,

A handwritten signature in dark ink, appearing to be 'G. Bartman', with a stylized, overlapping loop structure.

Gerry R. Bartman
President and Chief Executive Officer
May 15, 1995

REVIEW OF OPERATIONS

OYEN



The Oyen property is situated 15 miles northwest of the town of Oyen, Alberta, in Township 29, Range 5 W4M.

Spire acquired the Oyen assets on December 1, 1994. Spire purchased a 100% working interest in two producing gas wells located at 12-04-29-5W4M and 12-09-29-5W4M and a 100% working interest in a 4 MMCFD gas compression facility at 08-04-29-5W4M. At year end, the two wells produced a total of 734 MCFD of gas net to Spire.

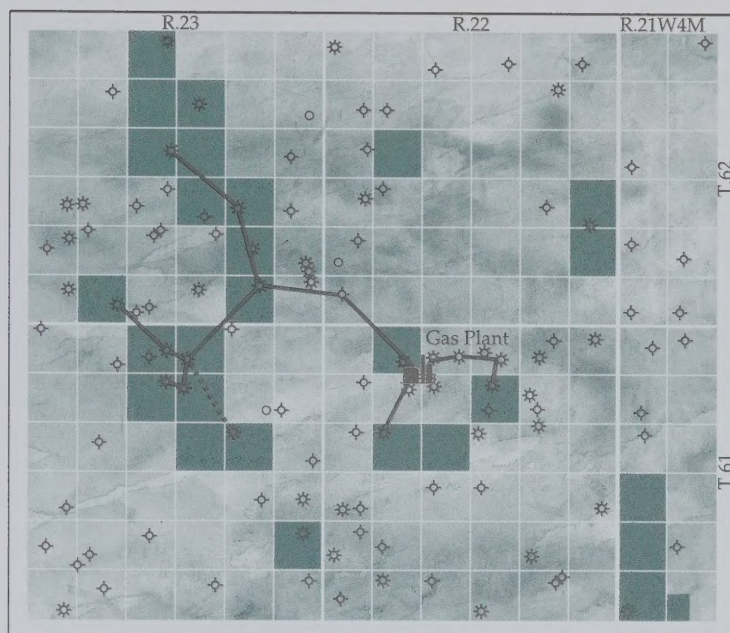
Shortly after the property was acquired, Spire licensed two wells on the Company's 100% working interest acreage targeting the Gem A sand at a depth of 820 feet. These wells, located at 02/12-09-29-5W4M and 15-04-29-5W4M were spudded in late December, 1994, and finished drilling in the first week of January, 1995. This drilling resulted in two net gas wells for Spire, and increased production from the Oyen area to more than 1.3 MMCFD in February, 1995.

1995 ACTIVITIES

Spire was encouraged by the 1994-1995 drilling results at Oyen, and subsequent to the 1994 year end drill a third successful well on the Company's 30% working interest lands in March, 1995. This well, located 01-10-29-5W4M, was tied-in to Spire's gas processing facility in April and commenced production on May at a rate of 850 MCFD (250 MCFD net).

The drilling success experienced to date prompted Spire to pursue another strategic acquisition opportunity adjacent to the Corporation's existing acreage. On April 28, 1995, Spire purchased a 100% working interest in Sections 16, 17, 20 and 21-29-5W4M. Spire is in the process of shooting a seismic program over these lands to delineate potential drilling locations in the Gem A sand as shown on the accompanying map. Pending review of the new seismic data, Spire could drill up to three additional wells on the Company's Oyen lands in the remainder of 1995.

ABEE



The Abee area is located approximately 50 miles north of Edmonton, Alberta, in Townships 61 and 62, Ranges 21, 22 and 23 W4M.

On July 29, 1994, Spire closed its first acquisition in the Abee area. Spire acquired a 23% working interest in 16,186 acres of land and a 32% working interest in four producing gas wells located at 12-27-61-23W4M, 03-34-61-23W4M, 02/03-34-61-23W4M and 06-14-62-23W4M. The Company also acquired a 26% working interest in the Abee gas plant at 01-32-61-22W4M. Spire exited the 1994 year producing 705 MCFD net from the Abee property.

In late 1994, Spire followed up with two smaller acquisitions at Abee. Spire acquired a 5% working interest and a 7.5% overriding royalty that converts to a 30% working interest after payout in Sections 22 and 23-61-23W4M. The upside to this property is the acquisition of a capped Glauconite gas well located at 12-23-61-23W4M. This well was drilled in 1979 and drill stem tested at a rate of 3.1 MMCFD. There were no processing facilities in the area at the time the well was drilled, and the operator had a low (5%) working interest, thus the well was never completed for production.

1995 ACTIVITIES

In early 1995 Spire acquired an additional 50% working interest in well 12-23-61-23W4M, bringing Spire's interest to 55% before payout and 57.5% after payout, with a 7.5% overriding royalty to payout. Spire will perforate and test the well in the second quarter, and pending a successful test, tie the well in to our gas plant in June.

Spire plans to recomplete a number of wells in Abee that could be capable of gas production. The first recompletion scheduled is well 08-21-62-23W4M. This well was drilled in 1981 and drill stem tested at a rate of 2.1 MMCFD from the Basal Quartz formation. The well was perforated over three intervals and produced water with a small amount of gas. Spire believes that the well was perforated too low and plans to isolate the lowermost perforations to shut-off the water and restore the gas rate. Three other wells have been identified for reactivation pending the results of this workover.

In addition to the recompletion and tie-in work, Spire expects to drill at least one well at Abee in 1995. Spire spent the last half of 1994 carrying out detailed geological work in the Abee area to delineate the various producing horizons and generate drilling prospects. The Company also purchased a small amount of seismic data in the area and plans to shoot additional data in 1995 before commencing any drilling operations.

RESERVES

The following table details the Corporation's natural gas reserves and net present value of future revenue at December 31, 1994, as evaluated by independent engineering consultants Sproule Associates Limited.

RESERVES AND NET PRESENT VALUE AT DECEMBER 31, 1994 ⁽¹⁾				
NATURAL GAS RESERVES		BEFORE		AFTER
(MMCF)		ROYALTIES		ROYALTIES
Proven Developed, Producing		1,990		1,435
Proven Undeveloped		3,035		2,475
Probable		702		540
Total		5,727		4,450
ESTIMATED PRESENT VALUE OF FUTURE NET REVENUE				
(\$ thousands)	UNDISCOUNTED	10%	15%	20%
Proven Developed, Producing	1,968	1,548	1,400	1,281
Proven Undeveloped	4,860	2,948	2,428	2,053
Probable	385	205	157	123
Total	7,213	4,701	3,985	3,457

(1) Estimated in independent engineering evaluation prepared by Sproule Associates Limited, dated May 15, 1995. Probable reserves have been reduced by 50% to account for risk.

As indicated in the above table, our acquisition program in 1994 added significant reserves and value to the Corporation.

Spire's proven and probable reserves at year end totalled 5.7 BCF of natural gas with nearly all of the Company's reserves classified as proven. In 1994, Spire spent \$2.6 million to develop these reserves, translating to a finding and onstream cost of \$0.45/MCF.

Sproule has estimated the present value of the future net revenue from these reserves at \$4.0 million using a 15% discount rate. The Sproule evaluation assumed an average gas price of \$1.89/MCF in 1995, \$1.78/MCF in 1996, increasing to \$2.29/MCF by 1999, and escalating at approximately 5% per year thereafter. The elevated gas pricing in 1995 is a reflection of the premium fixed-price contract that the Corporation has secured for the Abee production.

MANAGEMENT PRODUCTION AND PRODUCT PRICES DISCUSSION AND ANALYSIS

Natural gas production on a calendar day basis averaged 535 MCFD net to Spire in 1994. Production pertaining to the Abee acquisition was recognized commencing May 17, 1994, the date the agreement was signed to acquire the assets, while production from the Oyen property was recognized from December 1, 1994. With two major acquisitions completed, Spire exited the 1994 year at a production level of 1,439 MCFD.

Spire received an average price of \$1.75/MCF for its gas production in 1994. All of Spire's natural gas was sold on the spot market until October 31, 1994. Thereafter, the Abee production was contracted at a fixed price of \$2.14/MCF, and the Oyen production was sold under a netback pricing arrangement to Western Gas Marketing Limited effective December 1, 1994.

EXPENSES

Production expenses for 1994 were \$87,986 or \$0.45/MCF on a unit of production basis. Operating expenses at Abee were disproportionately higher in the second half of 1994 due to an extensive plant turnaround, and as noted above, production, revenue, and expenses were not recognized until May 17, 1994, resulting in skewed statistics for the year.

General and administrative costs of \$93,982 were incurred in 1994. These costs are high on a unit of production basis due to the start-up nature of the Company and the corresponding lower production levels. These expenses are expected to remain at this point into 1995, however, these costs should decrease on a unit of production basis as the Company grows.

Interest expense in 1994 totalled \$44,280, primarily due to financing charges on the Company's production loan facilities with the Hongkong Bank of Canada and debt to the Corporation's major shareholder, Humboldt Capital Corporation.

Royalties in 1994 were \$111,019, a reflection of the overriding royalty burdens at Abee and the fact that the Corporation was not eligible for Alberta Royalty Tax Credits this year.

DEPLETION AND DEPRECIATION

In 1994, Spire's natural gas production was 195,184 MCF. Spire incurred a depletion expense of \$147,750 using a depletion rate of \$0.69/MCF.

EARNINGS AND FUNDS FLOW FROM OPERATIONS

Spire realized a net loss for the year ended December 31, 1994, of \$154,013 or \$0.04 per common share compared to a loss of \$36,800 or \$0.03 per common share in 1993. 1994 was the first year in which the Company engaged in oil and gas operations and the loss incurred was a direct result of booked depletion charges.

The Corporation essentially broke even in terms of cash flow from operations, realizing a small decrease of \$6,263. This is an improvement over 1993 when the Company incurred a decrease of \$36,800. The Corporation has generated positive funds flow in the first quarter of 1995.

CAPITAL EXPENDITURES

Spire incurred significant capital expenditures in 1994, most of which were directed at acquiring oil and gas assets. The Company spent \$2.2 million on acquisitions, \$18,000 on geophysical data and \$48,000 on drilling during the year. The balance of the capital program was related to direct exploration costs pertaining to the petroleum and natural gas properties.

INCOME TAXES

The Corporation has accumulated significant tax pools that have allowed the Company to defer income taxes in 1994. The tax pool balances are detailed in note (6) of the financial statements and exceed \$2.5 million.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF SPIRE ENERGY LTD.

We have audited the balance sheet of Spire Energy Ltd. as at December 31, 1994 and 1993 and the statements of operations and deficit and changes in financial position for the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the periods then ended in accordance with generally accepted accounting principles.

March 31, 1995

Price Waterhouse
Chartered Accountants
Calgary, Alberta, Canada

SPIRE ENERGY LTD.

BALANCE SHEET

	DECEMBER 31	
	1994	1993
ASSETS		
Current		
Cash and short-term investments	\$ 79,850	\$ 358,984
Accounts receivable	106,227	5,958
Prepaid expenses	15,448	-
	201,525	364,942
Fixed assets (Note 3)	2,467,253	46,946
Deferred charges (Note 2)	-	59,025
	\$ 2,668,778	\$ 470,913
LIABILITIES		
Current		
Accounts payable	\$ 308,436	\$ 24,759
Current portion of office equipment lease	10,165	14,196
Current portion of long-term debt (Note 4)	345,994	-
	664,595	38,955
Long-term debt (Note 4)	803,006	-
Office equipment lease	-	10,158
EQUITY		
Share capital (Note 5)	1,391,990	458,600
Deficit	(190,813)	(36,800)
	1,201,177	421,800
	\$ 2,668,778	\$ 470,913

Approved by the Board

Director

Director

SPIRE ENERGY LTD.

STATEMENT OF OPERATIONS AND DEFICIT

	YEAR ENDED DECEMBER 31 1994	MAY 28, 1993 TO DECEMBER 31 1993
REVENUES		
Gas sales	\$ 331,004	\$ -
Less: Royalties	(111,019)	-
	219,985	
EXPENSES		
Operating	87,986	-
General and administrative	93,982	36,800
Interest	44,280	-
Depletion and depreciation	147,750	-
	373,998	36,800
Loss for the period	(154,013)	(36,800)
Deficit, beginning of period	(36,800)	-
Deficit, end of period	\$ (190,813)	\$ (36,800)
Loss per common share	\$ 0.04	\$ 0.03

SPIRE ENERGY LTD.

**STATEMENT OF CHANGES
IN FINANCIAL POSITION**

	YEAR ENDED DECEMBER 31 1994	MAY 28, 1993 TO DECEMBER 31 1993
Cash (used in) provided by operating activities		
Loss for the period	\$ (154,013)	\$ (36,800)
Items not affecting cash		
Depletion and depreciation	147,750	-
	(6,263)	(36,800)
Increase in non-cash working capital excluding changes in the current portions of long-term debt and office equipment lease	167,960	18,801
	161,697	(17,999)
Cash (used in) provided by investing activities		
Increase of fixed assets	(2,568,057)	(46,946)
Deferred charges	59,025	(59,025)
	(2,509,032)	(105,971)
Cash provided by financing activities		
Long-term debt	1,149,000	-
Capital lease	(14,189)	24,354
Share capital issued, net	933,390	458,600
	2,068,201	482,954
(Decrease) increase in cash	(279,134)	358,984
Cash, beginning of period	358,984	-
Cash, end of period	\$ 79,850	\$ 358,984

SPIRE ENERGY LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1994

1. INCORPORATION

Spire Energy Ltd. (the "Corporation") was incorporated pursuant to the provisions of the Business Corporations Act (Alberta) on May 28, 1993, as 568587 Alberta Ltd. The Corporation changed its name to Spire Energy Ltd. on September 2, 1993.

2. ACCOUNTING POLICIES

(a) PETROLEUM AND NATURAL GAS OPERATIONS

The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Costs include land acquisition costs, geological and geophysical costs, carrying charges on non-productive properties, costs of drilling both productive and non-productive wells and related overhead charges. The capitalized costs are depleted using the composite unit-of-production method based upon estimated proven reserves before royalties. In calculating depletion, crude oil reserves are converted to equivalent units of natural gas based on the relative energy content of each product.

The capitalized costs less accumulated depletion and depreciation and deferred taxes and the provision for site restoration costs are limited to an amount equal to the estimated future net revenues from proved reserves based on current prices and costs, plus the lower of cost and estimated fair value of unproven properties, less estimated future general and administrative expenses, financing costs, income taxes and site restoration and abandonment costs. Proceeds from the sale of oil and gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

A portion of the Company's exploration and production activities related to petroleum and natural gas are conducted with others, and accordingly, the accounts reflect only the Company's proportionate interest in such activities.

Depreciation of office furniture and equipment is provided using the straight-line method based on estimated useful lives.

(b) DEFERRED CHARGES

The deferred charges consist of wages and other expenses attributable to business development. The recovery of such costs is dependent on the completion of a major acquisition. Two major acquisitions were completed during the year (July 29, 1994 and December 1, 1994, respectively) and the deferred charges are now included in the cost of the acquired oil and gas properties. Revenues and operating expenses pertaining to the July 29, 1994 acquisition were recognized from the date the agreement was signed (May 17, 1994).

3. FIXED ASSETS

		1994		1993
	Cost	Accumulated depletion and depreciation	Net book value	Net book value
Petroleum and natural gas properties	\$ 2,566,197	\$ 135,549	\$ 2,430,648	\$ -
Office furniture and equipment	48,806	12,201	36,605	46,946
	\$ 2,615,003	\$ 147,750	\$ 2,467,253	\$ 46,946

Management has estimated the salvage value of the equipment to be in excess of the abandonment costs of the petroleum and natural gas properties and, accordingly, no provision has been recorded in the accounts for future removal and site restoration costs.

In applying the full cost ceiling test, the year end gas price of \$1.50/mcf was used.

4. LONG-TERM DEBT

- (a) The Corporation has an unused revolving production loan facility for a maximum of \$100,000 and two non-revolving demand production loan facilities (the "non-revolving production loan facilities") of \$400,000 and \$300,000 with a major Canadian chartered bank. The non-revolving production loan facilities were used to finance the purchase of oil and gas assets in the Abee and Oyen areas of Alberta. The \$400,000 non-revolving production loan facility of which \$349,000 is outstanding as of December 31, 1994, is to be repaid by October 1, 1996 with monthly instalments of \$18,597. The \$300,000 non-revolving production loan facility which is fully drawn down, is to be repaid by September 1, 1996 with monthly instalments of \$17,242 commencing March 1995. All of the loan facilities bear interest at the bank's prime rate plus 1% per annum on the outstanding principal amount. As security for the loan facilities, the Corporation has provided a first fixed and floating charge debenture over all of the Corporation's assets, a general security agreement and a general assignment of book debts.
- (b) The Corporation currently has a \$500,000 loan from Humboldt Capital Corporation, a 47% shareholder in the Corporation. The loan bears interest at bank prime plus 1% and is classified as long-term. There are no fixed terms for repayment.

Interest expense on the Corporation's total long-term debt for 1994 was \$31,400.

Loan from Humboldt Capital Corporation	\$ 500,000
Non-revolving production loan facilities	649,000
	1,149,000
Less: Current portion	(345,994)
	\$ 803,006

5. SHARE CAPITAL

Authorized

Unlimited number of first preferred shares
Unlimited number of second preferred shares
Unlimited number of common voting shares without nominal or par value

Issued	Number of shares	Amount
Common shares		
Balance, December 31, 1993	4,000,000	\$ 458,600
Issued for cash pursuant to:		
Exchange Offering Prospectus	2,000,000	708,390
Stock options	100,000	20,000
Flow-through share agreement	500,000	205,000
Balance, December 31, 1994	6,600,000	\$ 1,391,990

(a) The first and second preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions, and conditions attached to the shares of each series.

(b) Pursuant to the Exchange Offering Prospectus, dated November 28, 1994, 1,000,000 shares are reserved for issuance upon the exercise of warrants and 300,000 shares are reserved for the agent's option (at a price of \$0.40 and expiry date of February 28, 1996). At December 31, 1994, there were 2,000,000 warrants outstanding with exercise terms of 2 warrants and \$0.50 for 1 common share. These warrants expire on December 15, 1995.

On December 29, 1994, Yorkton Securities Inc., the agents, exercised 100,000 options at \$0.20 per share for total consideration of \$20,000.

(c) The Corporation has established a stock option plan for the benefit of directors and officers of the Corporation. On September 30, 1993, options were granted for an aggregate 195,000 common shares and may be exercised at a price of \$0.20 per share until September 30, 1998.

6. INCOME TAXES

The Company has exploration and development expenses and capital cost allowances available for deduction against future taxable income as follows:

Canadian oil and gas property expense	\$ 1,714,000
Canadian development expense	280,000
Canadian exploration expense	18,000
Undepreciated capital cost	505,000
	\$ 2,517,000

7. SUBSEQUENT EVENT

On February 28, 1995, the Corporation issued 375,000 flow-through shares at \$0.40 per share of which 250,000 were issued to Humboldt Capital Corporation and 125,000 to one of its shareholders.

CORPORATE SUMMARY

BOARD OF DIRECTORS

Gerry R. Bartman
Calgary, Alberta

Heinz Isler*
Geneva, Switzerland

Robert W. Lamond*
Calgary, Alberta

Clive M. Stockdale*
Vancouver, British Columbia

Charles A. Teare
Calgary, Alberta

* Denotes member of the Audit
Committee

OFFICERS AND KEY PERSONNEL

Gerry R. Bartman
President

C. Steven Cohen
Secretary

HEAD OFFICE

#810, 633 - 6 Avenue S.W.
Calgary, Alberta
T2P 2Y5
Telephone: (403) 269-9016
Fax: (403) 269-9017

LEGAL

Burnet, Duckworth & Palmer
Calgary, Alberta

AUDITORS

Price Waterhouse
Calgary, Alberta

TRANSFER AGENT AND REGISTRAR

Montreal Trust
Calgary, Alberta

LISTING INFORMATION

Alberta Stock Exchange
Symbol: "SEY"



SPIRE
ENERGY LTD.

Spire Energy Ltd.
810, 633 - 6 Avenue S.W.
Calgary, Alberta